Sustainability and the Accountable Corporation

by Allen L. White

Without the private sector's active commitment and support, there is a danger that universal values will remain little more than fine words—documents whose anniversaries we can celebrate and make speeches about but with limited impact on the lives of ordinary people.

—Kofi Annan, Secretary General of the United Nations

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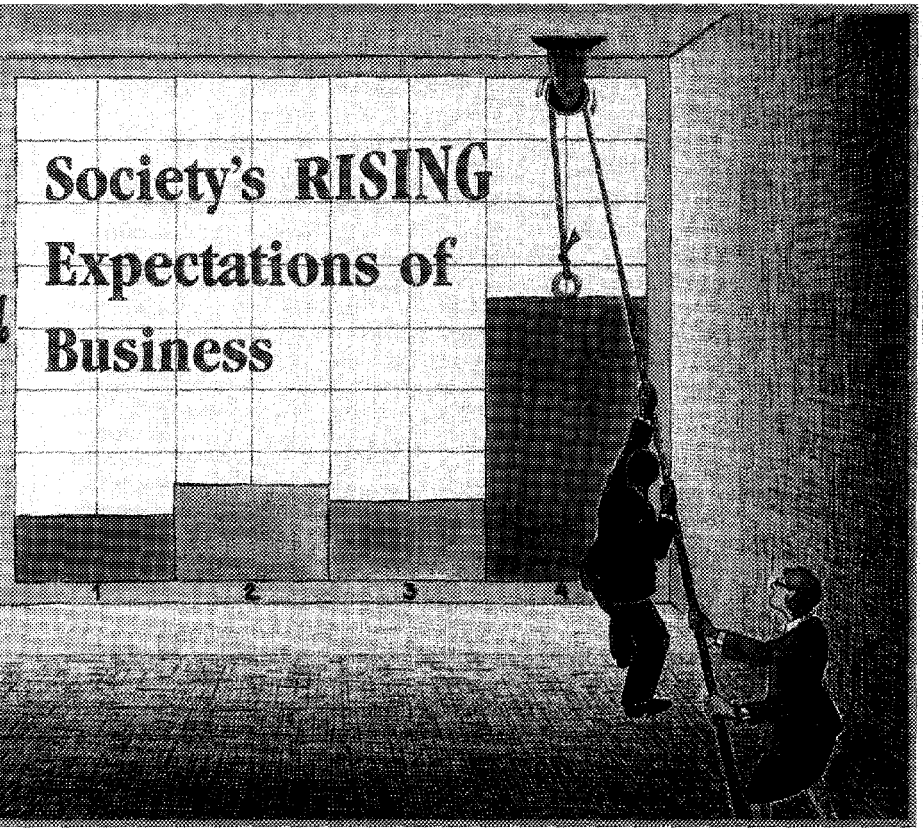

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In early 1999, Freeport-McMoran Copper and Gold, Inc., a New Orleans-based multinational company, issued its 1998 annual report. At first glance, the report resembles the thousands of others regularly released by publicly traded companies: 52 pages long, with a letter to the shareholders from the chairman of the board and the president and standard financial information such as income, cash flow, balance sheets, and stockholders' equity.[1]

Yet a second look reveals something striking: Fully 20 percent of the report is devoted to a description of how the company is "working toward sustainable development." This from a company engaged in extracting nonrenewable resources that has been heavily criticized for its environmental and social mismanagement at a massive mining site on a remote Indonesian island. Appearing before the financial information, the section on sustainable development describes Freeport-McMoran's activities in Irian Jaya along economic, social, and environmental lines: the taxes, dividends, and royalties paid to

Indonesia; migration, ethnic conflicts, alleged human rights abuses, and the medical and educational facilities the company maintains in the mining area; and its environmental commitments, management, monitoring, and audits.

Consider a second, equally telling case—that of Royal Dutch Shell, the global petroleum exploration, refining, and chemical giant. In the mid-1990s, Shell was strongly criticized by environmental and human rights advocates for alleged abuses in its North Sea and Nigerian operations.[2] The North Sea episode was triggered by Shell's announcement in 1995 of its plans to dispose of a redundant storage and loading buoy at sea. Environmental activists, led by Greenpeace, saw an ominous precedent in such disposal, one that would turn the ocean into a dumping ground for contaminated equipment. Shell's plans had been developed in the traditional corporate mode, based only on technical and economic criteria and ignoring the views of other stakeholders. The result was a damaging public relations episode for Shell that was fueled by both political outcries from various European Union (EU) political leaders and by sometimes-violent protests by environmental activists. The controversy subsided after intensive dialogue with stakeholders that will likely lead to the buoy's use to extend a quay in Norway.

The Nigerian episode was perhaps even more damaging to Shell's image. This involved allegations of involvement in human rights violations, which culminated in the execution of playwright and activist Ken Saro-Wiwa and eight others in 1995. As the operating partner in a joint venture that includes the Nigerian National Petroleum Corporation, Shell has inevitably been linked to the social, ethnic, and economic tensions that have plagued that country since independence. Though the company "did not necessarily agree with all [of Saro-Wiwa's] views," it did attempt to get Nigeria's head of state to grant clemency to all of the accused. About the same time, Nigeria's oil unions called a strike, putting Shell in the uncomfortable position of having to refuse to increase oil production under military protection to support its clemency request.

The globalization of commerce has also increased the public's awareness of the social and environmental impacts of large corporations.

How does one interpret the responses of Freeport-McMoran and Shell? In both cases, public opinion forced them to reexamine their values and corporate responsibility, and in both cases they chose to greatly expand the reporting of their environmental and social performance while firmly embracing the language of sustainability. Does such public disclosure occur in other economic sectors, or is it confined to the resource-intensive industries whose operations often—and visibly—clash with the emerging standards of environmental stewardship? And does public disclosure of environmental, social, and economic information have staying power or is it only "greenwashing" intended to defuse an immediate crisis?

The New Transparency

Looking at corporations' disclosure activity worldwide, it appears that the Freeport-McMoran and Shell cases are in fact symptomatic of a long-term shift in corporate behavior. While specific incidents may provide the final impetus, it is clear that companies worldwide are moving toward greater accountability. As economist George D. Smith and his colleague Davis Dyer observe in assessing the transformation of U.S. corporations during the last century, it is not simply growing economic complexity that demands management's attention. Corporations must also attend to the rising claims of multiple stakeholders—consumers, environmentalists, suppliers, and employees as well as shareholders—to retain their license to operate and even their competitiveness: "Indeed, what is new is that explicit social and ethical responsibilities are now vested in American corporations more than ever before."[3] (For more on the meaning of sustainability in the corporate context, see the box on page 33.)

What is giving rise to this trend? No single explanation suffices. Prior to the 1930s, corporate disclosure of financial information (to say nothing of social or environmental information) was virtually unknown in the United States. This is not to say that governments and the public were indifferent to corporate behavior. Indeed, until the Civil War (1861–65), the states generally chartered corporations for specific purposes (e.g., to build a road or canal) and specific periods of time. Having achieved its goal, a corporation would usually distribute the accumulated assets to its shareholders and disband. Thus, every corporate charter represented an implicit social contract: The corporation was granted the license to operate

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Defining Corporate Sustainability

The precise meaning of the term *corporate sustainability* is much disputed. For some, a company that is truly pursuing sustainable practices must be phasing out its use of substances "that are systematically at odds with a sustainable world" while measuring "what share of the world's limited regenerative capacity is occupied by [its] use of renewable substances."[1] Similar to this is the view that corporate sustainability means establishing "boundary conditions, limits, metabolic ratios, and footprints."[2] Others, intellectually tied to the social auditing movement, assign more weight to the processes that lead to sustainable practices (as distinct from the results of those practices). They see the involvement of stakeholders—and indicators defined by those stakeholders—as a precondition for truly sustainable corporate activities. Still others, led by the World Business Council on Sustainable Development, define sustainability largely in terms of ecoefficiency, i.e., as producing goods and services of greater and greater value relative to the burden they impose on the environment.[3] Finally, some commentators view corporate sustainability as an oxymoron. That is, they see today's global corporations—which measure their success primarily in terms of short-term increases in shareholder value and which make few commitments to their communities or workers—as inherently at odds with the intergenerational and social equity aspects of sustainability.[4] This article takes no position on which of these views is the correct one; it merely asserts that sustainability relates to three dimensions of corporate behavior, namely the environmental, social, and economic aspects of a company's operations.

1. Mathis Wackernagel, Redefining Progress, personal communication with the author, 1 March 1999.

2. Paul Hawken, personal communication with the author, 10 March 1999. Boundary conditions, limits, and metabolic ratios refer to the assimilative capacity of air, water, and land relative to the resource use and wastes associated with a firm's products and services. Footprints refer to the quantity of resources required by a firm to make its products, expressed in some single metric such as hectares of land.

3. L. Di Simone and F. Popoff, *Eco-efficiency: The Business Link to Sustainable Development* (Boston, Mass.: MIT Press, 1997).

4. D. Korten, *When Corporations Rule the World* (West Hartford, Conn.: Kumarian Press; and San Francisco, Calif.: Berrett-Koehler Publishers, 1995).

in exchange for providing social benefits. Putting time limits on charters, making stockholders fully liable for the corporation's debts, and modifying the charter if the corporation failed to fulfill its public purpose were all part of the rules of the game in the early days of the republic.[4]

After the Civil War, however, this situation changed dramatically. By the 1870s, major corporate interests had pressed the federal and state governments to treat them in ways that allowed essentially uncontrolled accumulation of wealth with minimal liability for harm to workers or the public at large.[5] Another watershed came in 1886, when the Supreme Court ruled that a corporation was a "natural" person subject to all the protections of the Constitution. This decision effectively reversed hundreds of state laws governing the wages, working conditions, ownership, and tenure of U.S. corporations.[6] It also heralded a period of more than 40 years during which governments and corporations showed little inclination toward transparency. Burgeoning corporate power was accompanied by secrecy; greater accountability would have to wait several decades, one world war, and the collapse of the stock market.

Public accountability suffered in two ways during the late 19th century. First, large corporations headed by figures such as Cornelius Vanderbilt, John D. Rockefeller, Andrew Carnegie, and J. P. Morgan were decidedly secretive in their conduct of business, a practice made possible by the lack of mandatory disclosure rules and the entrepreneurs' cozy relationships with governments. Second, the accounting systems that did exist were an artifact of earlier times when "accounting" merely meant tracking performance for investors. All other stakeholders—workers, customers, communities, and the early environmentalists—were left uninformed about matters that might affect them greatly. This disjuncture between the corporate purpose broadly defined and corporations' balance sheets is at the root of the debate over accountability even now.[7]

Though transparency was lacking, the federal government attempted to prevent the concentration of economic power in the hands of a few large corporations in other ways. Congress outlawed monopolies in the Sherman Antitrust Act of 1890 and took further action against anticompetitive practices by creating the Interstate Commerce Commission in 1887 and the Federal Trade Commission (FTC) in 1914. As it happens, the FTC legislation represents a major step toward accountability because it grants the commission authority to obtain information from companies in cases involving unfair trade practices. These and other actions of the early 20th century portended a uniquely American, yet curiously paradoxical, relationship between government and business that has persisted to this day: the coexistence of a culture that enthusiastically embraces free markets while casting a wary eye on the big business that is a direct offspring of this culture. This tension distinguishes the United States from other industrial (and some emerging) nations, where government-business relationships tend to reflect a sense of common interest and shared public responsibility.[8]

While regulation to maintain competitiveness and fairness in commerce was firmly rooted by the first quarter of the 20th century, it would take the

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collapse of U.S. stock markets in 1929 to permanently put corporate accountability on the government's agenda. A decline of more than 80 percent in the market value of all securities on the New York Stock Exchange from 1929 to 1932 convinced policymakers that accountability standards were themselves bankrupt. Congress responded by enacting the Securities Act of 1933 and the Exchange Act of 1934, the first major pieces of legislation to significantly increase corporate accountability. Although the financial disclosure requirements of these landmark laws are among their most prominent features, their legislative history suggests that environmental and social information—critical elements of today's corporate sustainability picture—fall well within their purview. That such information has only recently begun to appear in corporate reports—more than six decades after enactment of the legislation—is better explained by enforcement agency culture and corporate resistance than by any limitations of the legislation itself.

Law professor Cynthia Williams illuminates the gap between legislative intent and implementation.[9] Reviewing the legislative history, she demonstrates the intent of the laws included—but was not limited to—protecting investors from the misrepresentations that had fueled such vast speculation in stocks in the 1920s. Indeed, the new securities laws had a broader mandate: to reinstate some kind of social control over corporate behavior through the instrument of public disclosure. Disclosure, it was thought, would provide reliable and timely information about board membership, ownership, debt and equity positions, the purpose of new securities offerings, and a host of other details that all stakeholders (not just investors) need to evaluate a corporation's activities. The wording of section 14(a) of the Exchange Act is particularly telling in this regard: In it, the Securities and Exchange Commission (SEC) is given the "power to promulgate proxy regulations 'as necessary or appropriate in the public interest *or* for the protection of investors [emphasis added].'"[10]

Winds of Change

For half a century after the above laws were enacted, the debate centered primarily on how to achieve disclosure rather than on the more fundamental question of what information should be disclosed. The SEC charged the Financial Accounting Standards Board with developing generally accepted accounting practices (GAAP) to ensure that all companies reported financial information in the same way.[11] The accounting profession thus became responsible for certifying that corporate disclosures adhere to these principles, and SEC filings became a key repository of information for investors. The interests of investors are protected by continually reviewing and revising GAAP to keep up with the increasing complexity of corporate finances.

Until recently, other stakeholders have not had access to relevant corporate information to the same degree as investors. Several factors are acting to change this, including legal challenges and the growth of a global economy. In the 1970s, the Natural Resources Defense Council (NRDC) pursued various legal efforts to enlarge the scope of disclosure required by the SEC.[12] In a strict legal sense, these efforts came to little. The courts simply reaffirmed the principle of economic "materiality," that is, that corporations were required to disclose "social" information only when it was directly relevant to a prudent investor's decisions. In a broader sense, however, the notion that social and environmental information was a valid concern for securities regulators—even from the narrow perspective of the individual investor—created an important precedent. The issue of other stakeholders' right to corporate information would surface again, first regarding the environment and soon thereafter in the context of sustainable business practices.[13]

The globalization of commerce has also increased the public's awareness of the social and environmental impacts of large corporations. Missteps by a multinational firm in one part of the world are rapidly communicated to consumers and public interest advocates elsewhere. Two catastrophes in the 1980s—the accidental release of toxic fumes at Union Carbide's fertilizer plant in Bhopal, India, and the *Exxon Valdez* oil spill in Alaska—laid the groundwork for higher standards of corporate disclosure. More recently, Wal-Mart, the giant U.S. retailer, has been the object of an exposé concerning low-wage labor in Honduran textile factories; Nike has been the target of protests over its use of child labor in Asia; and Monsanto's involvement with genetically modified organisms has made it a lightning rod for opponents of that technology.[14] In short, globalization has been a two-edged sword for corporations, offering them the possibility of unprecedented market expansion and capital accumulation but also increasing the opportunities for costly mistakes that may become headline news within hours. Together, these trends bolster the case for moving from ad hoc, reactive, and disharmonized disclosure toward disclosure that better matches the geographic scope and multiple dimensions of modern corporations.[15]

Rise of the Voluntary Report

A survey of voluntary corporate disclosure practices reveals remarkable progress in the last decade but also the emergence of a troubling paradox. The very growth of such disclosure, which is embodied in hundreds of environmental and sustainability reports, has led to an enormous volume of inconsistent and unverified information. If the information of interest to stakeholders is not presented in a coherent, uniform framework, the resulting confusion and frustration may well stall the momentum toward greater disclosure achieved during this decade.

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What are the roots of this problem? The predecessor of today's voluntary reporting is environmental compliance reporting. In the United States, the latter dates back to the 1970s and the enactment of key environmental laws governing air and water quality and waste management. The regulations that followed created a rudimentary reporting system based on facility air emissions and water discharge permits and mandatory hazardous waste reports. This system, however, suffered from the same deficiencies as the laws that spawned it, i.e., it focused on individual media, the information was not coordinated, and the reports themselves were often duplicative and inconsistent.[16] Of course, these particular reporting requirements were designed to serve only one stakeholder (the federal government) and only one purpose (facilities' compliance with emissions limits). Though European nations pursued a less regimented approach to environmental regulation during this period, reporting there was also geared to compliance.

A step toward broader, more comprehensive coverage of corporate environmental performance occurred with Congress's enactment of the Superfund Amendments and Reauthorization Act of 1986. This milestone legislation, which was inspired in large measure by the Bhopal tragedy, fundamentally redefined the reporting landscape by creating the Toxics Release Inventory (TRI). Thousands of medium and large facilities were now required to annually report all of their releases to all media—air, water, and land—a provision that would enable interested stakeholders to obtain a complete profile of a facility's performance without having to assemble regulatory compliance information piece by piece. Subsequent amendments to the 1986 law expanded the list of pollutants and the number of facilities required to report. The Toxics Release Inventory has inspired similar initiatives in Canada and the European Union. Indeed, the public's right to have access to TRI-type information is generally accepted in Organisation for Economic Cooperation and Development countries. Policy debates now focus on the operational aspects of such information systems (e.g., the sectoral coverage, threshold emissions, and frequency of reporting) rather than on their merit. The next logical step would be to require reporting of information about chemical use (as distinct from chemical releases) as well as that on chemicals contained in products. This has been particularly controversial, however.[17] U.S. firms have raised two primary concerns in regard to the disclosure of information about chemical use and the chemicals in their products. The first is that such disclosure may enable competitors to "reverse engineer" a firm's products and determine the volume of its production—a fact the firm would ordinarily guard quite closely. The second pertains to the interpretation of chemical use information: That is, will communities, environmentalists, and other stakeholders confuse use information with release information? And is release information adequate to assess the risk of exposure to harmful substances? Interestingly, although the European nations have lagged behind the United States in disclosure of TRI-type chemical release information, they have demonstrated far stronger interest in product life-cycle assessment and ecolabeling, both of which rely in part on chemical use information. In any case, it is clear that TRI has irreversibly altered public expectations pertaining to environmental reporting at the facility level.

In retrospect, however, satisfaction with TRI as an instrument of corporate accountability was short-lived. While pressures to enlarge TRI's scope were present virtually from the day the regulations were issued, a more comprehensive approach began to take shape around 1990. This was based on the idea of voluntary corporate environmental reports (CERs), which were virtually nonexistent before. Reports by Polaroid, Monsanto, Norsk Hydro (Norway), and BSO/Origin (the Netherlands) would soon be joined by hundreds of others in an unprecedented surge of corporate initiative. Today, the total number of CERs produced annually probably exceeds 1,000 (including both standalone reports and the environmental portions of financial reports); firms from the United States, Canada, Europe, Japan, and a smattering of other nations regularly prepare them.

Depending on how one defines the term, there are now about three dozen initiatives with some relevance to sustainability reporting.

Why, in less than a decade, did voluntary CERs become standard practice among so many multinational corporations? One reason may lie in the dynamics of corporate behavior. As in any diffusion process, innovators such as Polaroid and Monsanto set a standard of disclosure against which other companies would be judged. In most

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cases, such leadership was not intentional. Polaroid, for example, was initially induced to report on its environmental performance by bad press about its emissions in Massachusetts. Spurred by these early leaders, reporting began to take root by the early 1990s.[18]

Concurrent with these developments was the recognition that information on compliance is simply not adequate to portray a company's complete environmental performance. Compliance information such as the number and amount of fines paid or pollutants released tells only a part of the story. It omits aspects of performance that fall outside the regulatory net, such as water and energy use, product performance, and environmental management systems, to name a few. Then too, compliance reporting is generally limited to "lagging indicators," that is, to what has already taken place. Leading indicators—information on environmental management systems, policies, and product stewardship that gives stakeholders a basis for assessing future performance—is usually lacking. As a rule, government reporting requirements do not cover this type of information, nor has there been much indication that they will do so in the future. This was true even in very progressive countries such as the Netherlands and Denmark, where mandatory facility-level reporting programs were under development by the mid-1990s.[19]

Yet another shortcoming was the facility-based nature of virtually all mandatory reporting. Because it is individual facilities that are issued permits, licensed, and fined, it may seem logical that they be the reporting units. Yet for environmentalists, investors, consumers, employees, and other stakeholders, company-level reporting is indispensable to provide a comprehensive picture of corporate performance. To some extent, of course, that picture can be pieced together from the information on individual facilities. But asking stakeholders to do that is neither realistic nor efficient. And in any case, a host of qualitative indicators, such as environmental management systems and product stewardship referred to above, fall within the domain of corporate headquarters.

Finally, with voluntary environmental reporting quickly becoming the standard practice, stakeholders were poised to demand disclosure of the social and economic impacts of corporate activities as well. Even without generally accepted standards for environmental reporting, pressure to enlarge the purview of corporate disclosure was visible by the mid-1990s. This gave rise to precedent-setting social reports by The Body Shop (a personal care products firm), Skandia (a financial services firm), and Shell, portending a time when sustainability reporting will supplant environmental reporting as a best business practice. Wage equity, child labor practices, gender equality, and freedom of association in the workplace, as well as stakeholder engagement processes, human rights, plant shutdown policy, and community reinvestment policy, exemplify the issues that such a wider reporting purview would cover.

The pace at which corporate sustainability reporting (CSR) will evolve is highly uncertain. Indeed, given the current state of environmental reporting, CSRs may seem like a distant vision. Yet the same could have been said about environmental reporting a decade ago. And with the emergence of sustainability as the dominant paradigm for future development, it may well be that CSRs take hold with an intensity and durability that surprises even the skeptics. For this to happen, however, such reporting will need a far more definitive framework than environmental reporting has now. Fortunately, the many reporting initiatives that have appeared in the last decade offer valuable insights into how such a framework may evolve.

The pace at which corporate sustainability reporting will evolve is highly uncertain. Yet the same could have been said about environmental reporting a decade ago.

In Search of Standardization

Depending on how one defines the term, there are now about three dozen initiatives with some relevance to sustainability reporting. A number of stakeholder groups, including businesses, governments, nongovernmental organizations (NGOs), and accounting organizations are active in this movement. Some of these initiatives began with the aim of giving corporate managers a tool with which to compare their company's own practices with the best ones in their industry. Others were launched to enhance external accountability but now seek to meet internal data needs as well. Some are purely voluntary and standalone reporting programs; others are required as part of a broader corporate accountability program. Some initiatives contain broad guidelines only;

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others are specific as to quantitative and qualitative indicators. And some programs contain an evaluation or verification component, while others do not. Such components may involve, for example, guidance to independent auditors who, like financial auditors, attest to the quality of the information systems and the accuracy of the data reported by the facility or company.

What is driving this global reporting movement? For NGOs, particularly those involved in rating corporations, regular disclosure of environmental and social information is clearly essential. For trade associations and other business groups, being able to systematically respond to stakeholders' expectations while managing proliferating information requests is the key objective. For governments, the ability to get a comprehensive, one-stop view of facility performance (beyond that offered by current compliance reporting) is a major driver. And for accountants, auditors, and verifiers, a generally accepted environmental (or sustainability) reporting framework analogous to that for financial reporting is increasingly seen as necessary, attainable and—equally important—marketable.

A few examples will illustrate the nature of the various initiatives that are under way.[20] In 1993, the Brussels-based European Chemical Industry Council issued a set of voluntary guidelines for its members (chemical industry trade groups within individual countries) that are based on the public disclosure requirements of Responsible Care, the worldwide chemical industry's environmental program. These guidelines, which were updated in 1998, represent one of the most robust reporting programs to date.[21] Seeking to improve corporate image, customer relationships, and relations with regulators, the guidelines include multiple quantitative metrics for major types of pollutants (i.e., air, water, and hazardous waste) as well as one metric for nonhazardous pollutants. Lists of recommended chemicals and threshold values for reporting are also included. In addition, the guidelines cover the provision of qualitative information, such as a statement from the chairman, a company profile, a description of product stewardship activities, and other forms of stakeholder communications. These guidelines are purely voluntary, however.

The Coalition for Environmentally Responsible Economies (CERES), formed in 1989, is a group of environmental organizations and social investors that works with companies to advance accountability along multiple dimensions.[22] In the early 1990s, CERES launched the first standardized environmental report for companies that endorse the group's 10 principles. This reporting format, which is revised annually through a collaborative process involving company and noncompany stakeholders, is now used by approximately 50 companies, mainly in the United States. Its coverage is extensive, including about 100 quantitative performance indicators and qualitative aspects of company operations. During the last two years, CERES has produced customized versions of its basic format for the financial services, energy, and health care industries. It has also inspired other initiatives, such as the Public Environmental Reporting Initiative (PERI) and the Global Reporting Initiative (GRI).

Denmark's Green Accounts Program is an example of a governmental program that aims to improve reporting at the facility level. This program and a recent Dutch initiative of a similar nature are noteworthy because they are among the first government mandates seeking to provide a comprehensive picture of facility performance. Interestingly, the Danish program requires firms to submit information on inputs (i.e., the water, energy, and materials used in production) but not to disclose this information to the public.

The Investor Responsibility Research Center (IRRC) in Washington, D.C., is a nonprofit organization that strives to meet the information needs of the social investment community. The organization's company profiles contain a broad spectrum of quantitative and qualitative information that is used to compute various performance indicators, i.e., an Emission Efficiency Index, a Spill Index, and a Compliance Index. The information is gathered both from questionnaires sent to the companies and from published government reports. Investors (and the companies themselves) can use these indices to compare the performance of particular firms to the average for the industry.

The World Business Council for Sustainable Development (WBCSD) in Geneva joined the ranks of organizations engaged in reporting initiatives through its Eco-Efficiency Metrics Working Group. Initially, this group sought to develop both generic and sector-specific metrics to aid companies' internal decisionmaking. Over time, however, it has come to assist with external reporting needs as well. WBCSD's program focuses strictly on quantitative metrics, seeking to help companies track their progress in reducing the environmental burden of the products or services they produce. The program was influenced by the Canadian Round Table's work on eco-efficiency measurement.[23] The Round Table, a federal government advisory panel seeking to identify indicators of use to managers, boards of directors, and external stakeholders, developed and tested indicators of energy intensity, materials intensity, and pollutant dispersion in collaboration with eight Canadian firms. Use of these indicators is purely voluntary, however.

The final example is the World Resources Institute's (WRI) framework for performance measurement.[24] In attempting to identify a set of common elements for assessing company or facility performance, WRI concluded that materials use, energy consumption, nonproduct output (all material that is neither used in nor as final product), and releases of pollutants were generally applicable performance measures. Though specific

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metrics are not given, the framework takes a strong stand on using input and output measures to evaluate progress toward the efficient use of resources. WRI sees such a framework as essential to meeting internal information needs and as a sound foundation for external reporting.

These five programs are but a sample of the dozens in place around the world. With each new program, it would appear that accountability is gaining ground. More facilities and more companies producing more reports seems to foretell a future with vast amounts of information. Coupled with the progress in social reporting, stakeholders should enjoy timely access to a rapidly growing body of environmental and social reports. But does all this mean that corporations will be more accountable?

The answer, unfortunately, is no—for the simple reason that more information does not necessarily mean better information. To be worthwhile, information about corporate performance has to meet the specific needs of different stakeholders. Yet the current fragmented (indeed chaotic) state of reporting initiatives is incompatible with this goal. With each program defining its own categories of interest (e.g., energy), objectives (e.g., energy efficiency), and indicators (e.g., kilowatt-hours per unit of output), the reporting landscape is awash with hundreds of indicators. While a certain level of customization is desirable (a chemical company cannot use precisely the same performance measures as an auto manufacturer, for instance), the current trend is toward far too much customization. As a result, the disparity between the volume of information available and the value of that information will accelerate. Although companies may well derive internal benefits from the existing reporting systems, the broader vision of corporate accountability to external stakeholders through the provision of consistent and credible information will remain just that—a vision.

The Global Reporting Initiative

With growing pressure for higher standards of corporate disclosure, the proliferation of reporting initiatives, and increasing uneasiness with the path that such initiatives were following, the need for a comprehensive and credible reporting mechanism was clear. While each of the dozens of reporting programs has value for a specific audience (e.g., the chemical industry, the Danish government, or environmental activists), the absence of a generally accepted reporting framework analogous to financial reporting remains a major impediment to driving companies toward continually higher levels of performance. Without such a standard, comparisons across companies and nations are not possible. Thus, the challenge is to create a reporting framework that is generic enough to capture key information common to most companies while building in sufficient flexibility to address the sector-, size-, and country-specific variations.

CERES responded by launching the Global Reporting Initiative (GRI) in 1997. For CERES, GRI represented the logical next step in the evolution of reporting programs. While the organization's domestic program had strongly influenced voluntary environmental reporting in the United States, it was becoming increasingly clear that a U.S.-based program was incompatible with the rise of global markets: If standardized reporting were to realize its full potential, companies worldwide would have to adopt the concept of a uniform framework.

Within months after its launch, GRI had emerged as an initiative distinct from all others in the reporting arena. There were three reasons for this. First, GRI is governed by a steering committee that represents all major stakeholders, including business, environmental, accounting, and United Nations interests (see the box on page 39). Second, it is attempting to advance true corporate *sustainability* reporting that goes beyond the traditional environmental and health and safety concerns.[25] And third, it emphasizes the concept of standardization.

During 1998 and early 1999, GRI moved aggressively to make good on its original three-part mission: to elevate sustainability reporting to a level equivalent to that of standard financial reporting in terms of comparability, auditability, and generally accepted practices; to devise core metrics for all enterprises as well as customized metrics applicable to specific sectors, all reflecting the environmental, economic, and social dimensions of sustainability; and to create a permanent and effective institution to support such reporting. In March 1999, GRI's steering committee released the so-called Exposure Draft of its first *Sustainability Reporting Guidelines* for public comment and pilot testing (see the box on page 40).[26] This document has three major sections: a preamble that describes the purpose, scope, value, and principles of the guidelines; the guidelines themselves, which have nine parts; and appendices giving further details on the underlying reporting principles, along with explanatory notes and lists of participants.

The Exposure Draft is noteworthy in several key respects. First, its reporting framework is firmly grounded in standard accounting principles, specifically those of financial accounting. Characteristics such as relevance, reliability, understandability, comparability, timeliness, and verifiability, along with assumptions such as the precautionary principle, form the backbone of this framework. This is no accident. With accountants integral to the GRI process, there has always been a strong voice for relying on generally accepted accounting practices. Indeed, most GRI participants endorsed this approach, believing that it would help make the initiative credible to a wide range of stakeholders, including business itself.

Second, the core guidelines are remarkably brief, comprising a mere

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Organizations on the Steering Committee of the Global Reporting Initiative

- Association of Chartered Certified Accountants (U.K.)
- Canadian Institute of Chartered Accountants
- Centre for Science and Environment (India)
- Coalition for Environmentally Responsible Economies (CERES) (U.S.)
- Colombian Business Council for Sustainable Development
- Council on Economic Priorities (U.S., U.K.)
- Environmental Auditing Research Group (Japan)
- E2 Management Consulting (Switzerland)
- General Motors Corporation (U.S.)
- Institute for Social and Ethical Accounting (U.K.)
- Investor Responsibility Research Center (U.S.)
- ITT/Flygt (Sweden)
- New Economics Foundation (U.K.)
- Stockholm Environment Institute-Tellus Institute (Sweden, U.S.)
- SustainAbility (U.K.)
- United Bank of Switzerland
- United Nations Environment Programme
- World Business Council on Sustainable Development (Switzerland)
- World Resources Institute (U.S.)

six pages. The longest section is the one on operational performance. This section contains a generic set of quantitative indicators for energy, materials, and water use as well as emissions (both those returned to the production process itself and those released into the land, air, and water). Other parts of the guidelines cover primarily qualitative information on such issues as policies and management systems, stakeholder relationships, and product performance.

Brevity does not signify selectivity or exclusion, however. In fact, the process of developing the guidelines was marked by a steady movement toward succinctness and consolidation. In the view of GRI participants, it was better to avoid overwhelming reporters with long lists of items that might be perceived as burdensome and overly specific. As a result, difficult decisions were made concerning core quantitative indicators of performance while requests for qualitative information were carefully worded so as to be precise yet reasonably flexible.

Third, the guidelines give equal weight to past and future performance. Those who developed GRI made a concerted effort to avoid the pitfall of other reporting initiatives, which rely heavily (and often exclusively) on lagging indicators. So, in addition to creating a historical record, these guidelines attempt to capture the degree to which management is forward-looking, resilient, poised to innovate, and capable of exercising leadership in the face of rising expectations for environmental, social, and economic performance. This aspect of company performance is especially valued by securities analysts, who seek barometers of management quality.

Finally, GRI's treatment of the social and economic aspects of sustainability is far less refined than its treatment of the environmental aspects. In fact, the main criticism of the guidelines is that environmental information dominates. Why is this the case? With the critical decision to enlarge the scope of the initiative to full sustainability reporting, GRI's designers immediately confronted a troubling reality: Relatively little work has been done on measuring the social and broader economic aspects of corporate performance. Even the definition of social and economic performance remains elusive.[27] Do these stand parallel to each other and environmental performance? Or is social performance the broad umbrella under which all aspects of corporate accountability, including the environmental and economic aspects, are properly placed? And what precisely is meant by "economic" as distinct from financial? Is it job creation and income generation in host communities? Or is it a grander concept, encompassing not only these local impacts but also the external costs of business activity (e.g., the costs of biodiversity loss, unsustainable forestry practices, the adverse health consequences of global temperature rise, and damage to buildings and crops from acid rain)?

The lack of generally accepted categories of social and economic impacts—much less generally accepted indicators of such impacts—leaves the quest for standardized reporting in its very earliest stage. While certain concerns commonly arise in discussions with stakeholders—human rights, employee rights, and community involvement[28]—more precise articulation of goals and indicators is lacking. Moreover, the culture- and country-specific nature of some aspects of

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social performance adds further complications to the challenge of standardization. For example, norms regarding gender equality in the workplace and minimum wages for labor vary widely across regions and nations. While international standards of human rights and labor practices offer some guidance for the development of corporate sustainability reporting guidelines, there is still no consensus on precise indicators.[29]

In recognition of this situation, GRI opted to use its draft guidelines and pilot test as a vehicle for maximum experimentation and mutual learning by corporations and report users. Corporations are requested to provide social and economic indicators in five areas: corporate principles (e.g., ethical standards, such as those pertaining to bribery and corruption); employee relations (e.g., freedom of association and workforce diversity); local and global community relations (e.g., community involvement and skills transfer); relations with suppliers (e.g., procurement standards); and relations with customers (e.g., labeling and advertising standards). However, GRI's developers chose not to provide specific quantitative metrics for measuring performance in these areas, preferring to encourage companies to experiment and provide feedback during the 1999 pilot test. In the three performance sections of the guidelines, firms are encouraged to offer indicators that are "of core relevance" to the enterprise, including those "arising from stakeholder engagement or other sources."[30]

GRI's pilot phase began in late spring 1999. Approximately 20 companies have volunteered to participate. Some are to prepare full-blown sustainability reports using the draft guidelines, as in the case of Bristol-Myers Squibb,[31] Proctor and Gamble, and ITT/Flygt. Others, such as Shell and Novo Nordisk will use the guidelines to inform their existing reporting programs, deferring to a later date the decision to embrace them in their entirety. The group of pilot testers represents a mix of companies, some experienced in corporate environmental and sustainability reporting and others just launching such programs. By early 2000, the results of the pilot test will be fully incorporated into a revised set of guidelines for dissemination and, hopefully, adoption on a large scale.

Though the GRI process is still young, its performance thus far has exceeded expectations. In April 1999, Klaus Töpfer, executive director of the United Nations Environment Programme (UNEP), wrote 200 environmental ministers worldwide encouraging them to "invite companies . . . to use [the GRI] guidelines and to work with UNEP and its partners to finalize them."[32] GRI has also attracted substantial attention in the science and policy community, as exemplified

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Note: The full text of the Global Reporting Initiative guidelines is available at http://www.ceres.org.

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by recent statements in a leading journal that it represents "the most promising effort yet to standardize what are currently a cacophony of green business claims" and that "[n]o other environmental reporting standard has as many influential institutional supporters. . . ."[33] Accounting societies in Canada and the United Kingdom have been major advocates of both the process and the draft product.[34] Though critics have questioned GRI's definition of sustainability,[35] their comments are directed more at weaknesses in the draft guidelines than at the process itself.

From the outset, GRI has sought to bring together the best thinking on accountability and reporting, drawing from initiatives and experts worldwide. It recognizes the value of each such initiative and, in fact, believes that many will and should continue even if GRI becomes a generally accepted global standard. Even if GRI succeeds at creating a generic framework covering, say, three-quarters of the sustainability information applicable to companies operating anywhere in the world, a need for supplemental information will persist. Building on a GRI platform with such supplemental information will strike balance between the generic and the specific. This, in turn, will best serve the diverse audiences who use corporate sustainability reports.

Accountability in the 21st Century

The globalization of product, service, and capital markets has made corporations more footloose than ever, with private direct foreign investment now far outstripping that of multilateral development institutions. Governments are watching the expansion of multinational corporations while lacking the tools to monitor—much less regulate—corporate behavior. Ethical and social investors, though still miniscule in relation to total securities markets, are attracting more and more attention from both securities analysts and companies. Information on corporate mismanagement of environmental and social affairs becomes virtually instant news and a source of corporate discomfort (or worse). And corporations themselves, seeking ways to distinguish themselves from their competitors, are exploring ways to make environmental and social performance part of their "brand equity."

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At the dawn of the 21st century, a new deal is taking shape between business and its external stakeholders. Though still in its formative stage, its contours are identifiable. It amounts to a redefinition of the corporate license to operate: Society may accept market capitalism as the dominant form of economic organization in exchange for deepening and broadening the standards of accountability to encompass the environmental, social, and economic dimensions of corporate activity. In a fundamental sense, the new license is firmly rooted in market mechanisms. It assumes that markets operate most efficiently when not only technology, capital, and labor but also information flow freely across the globe. While economic integration, free trade, and the globalization of capital markets have accelerated corporate multinationalism, information disclosure lags far behind. Corporate performance disclosure remains limited by the absence of international accounting standards even in the narrow and traditional domain of financial reporting. Disclosure of environmental, social, and nonfinancial economic information has been scant, erratic, and inconsistent. Thus, for the new deal to materialize, i.e., for the new license to operate to take effect, the standards of corporate accountability must be expanded to unprecedented levels. To make this a reality will require a concerted effort on the part of diverse stakeholders, an effort that is built on the premise that information disclosure will help direct corporate behavior toward sustainable ends. At this juncture, the convergence of stakeholder views around this premise is identifiable, although thoughtful skeptics will continue to challenge the underlying notion that market capitalism is structurally capable of delivering a sustainable society.

In today's business community, the weight of public opinion is an inescapable reality for management. News about problems with new products is disseminated very quickly—the same day on the internet and the next day in the business press. As a result, for global companies, hardly any decision is purely local any more. At the same time, management itself recognizes the critical role of such information in effective decisionmaking. It is the confluence of these two forces that makes standardized sus-

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tainability reporting potentially so valuable to business.

For NGOs, standardized reporting is the key to both effective advocacy and evaluating corporate performance. Organizations such as the Interfaith Council on Corporate Responsibility, CERES, and the Institute for Social and Ethical Accountability in London largely base their advocacy programs on the availability of corporate performance information. Developing a standard framework for sustainability reporting would greatly help to meet their information needs and thus enhance the effectiveness of their programs. Closely coupled with these groups are those that perform rating and ranking functions, e.g., the U.S.-based Council on Economic Priorities and the Investor Responsibility Research Center and the London-based SustainAbility. These groups rely heavily on information obtained directly from companies (though they supplement it with information from secondary sources such as government reports). Creating a consistent and credible (and universally recognized) framework for sustainability information would be a major advance toward more effective rating and ranking activities.

For financial markets, sustainability information remains at best a curiosity. Except in the relatively small social investment community, environmental, social, and nonfinancial economic information is rarely used in investment, lending, and underwriting decisions. The mounting evidence that such "extraneous" factors may affect stock performance has yet to permeate mainstream Wall Street. Such a realization is some years away and it will most likely materialize gradually as disparate voices—chief executive officers, chief financial officers, large institutional investors, and respected press outlets—repeatedly reinforce the message in the securities community.[36] Even if such awareness does become commonplace, a major obstacle looms ahead: Without readily accessible, standardized information of the sort to which securities professionals are accustomed, awareness of sustainability issues will not translate into appropriate action. For the financial community, accountability is not about advancing sustainability—it is about identifying the companies most likely to maximize shareholder returns.

For government stakeholders, the idea that higher standards of accountability must accompany regulatory reform is rapidly gaining acceptance. In the United States, after more than five years of experimenting with alternative approaches to regulatory "reinvention," EPA is forging ahead with a new Office of Information to centralize and better manage the agency's information requirements and systems. Discussions of "one-stop reporting" and "integrated reporting" are many and varied, reflecting the emerging view that more effective information is indispensable to creating a less burdensome—and ultimately more effective—regulatory infrastructure.[37] In Europe, Denmark's Green Accounts Program, the Netherlands new reporting program, and the EU's Ecomanagement and Audit Scheme (EMAS) environmental management system's reporting requirements exemplify the emerging consensus that disclosure of information is critical to future governmental programs. Even in normally disclosure-averse Japan, the national environmental agency has begun to show interest in reporting, albeit through gentle persuasion, not a regulatory stick.[38] In developing nations, where both culture and the lack of resources work against the development of an elaborate command-and-control regulatory system, information disclosure is poised to play a critical role in advancing the corporate sustainability agenda.

Finally, at the international level, UN pronouncements such as the one at the head of this article betoken efforts to get multinational enterprises to expand their commitment to sustainable development. Of course, such pronouncements can easily remain nothing more than high-minded words without credible indicators to enable one to track and monitor corporations' progress. This, in fact, is precisely the situation with most UN charters and codes of conduct, whether they pertain to human rights, labor, or the environment. In the absence of enforcement capability, information disclosure is essentially the only viable tool for moving corporate behavior in the desired direction. It is for this reason that UNEP has enthusiastically embraced GRI as an instrument for bringing to fruition Secretary General Annan's recent statements on corporate sustainability.

For most of those engaged in the disclosure debate, weakening or abandoning existing standards is not on the table. What is on the table is a shared concern that the current disclosure trajectory is not tenable. It is disjointed, inefficient, and incomplete—and it bears little relationship to the vision of sustainability to which stakeholders increasingly subscribe. Companies are facing steadily mounting pressures for disclosure but find responses to such pressures at odds with internal information needs. This, in turn, leads to the perception that disclosure is merely a cost, not a value-adding activity. Stakeholders pressing for higher standards of environmental, social, and economic accountability struggle to translate reported information into their own language. At the same time, these stakeholders have failed to present a coherent, rigorous, and comprehensive reporting framework to the companies from which they seek information. Clearly, an opportunity—indeed, an urgency—exists to find common ground. And based on the experience of the last two years, the will, readiness, and ability to find such ground are increasingly evident.

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NOTES

1. Freeport-McMoran Copper and Gold, Inc., *1998 Annual Report* (New Orleans, La., 1999).

2. See Shell International, Ltd., *Profits and Principles: Does There Have to Be a Choice?* (London, 1998); the annual reports of the Royal Dutch Petroleum Company; and Shell Transport and Trading Company, PLC, *Statement of General Business Principles and Shell's Investment in Society*; available at www.shell.com.

3. G. D. Smith and D. Dyer, "The Rise and Transformation of the American Corporation," in C. Kaysen, ed., *The American Corporation Today* (New York: Oxford University Press, 1996), 65. *License to operate* is a general term encompassing the legal, ethical, and social expectations pertaining to corporate activities.

4. R. Estes, *Tyranny of the Bottom Line* (San Francisco, Calif.: Berrett-Koehler Publishers, 1996), 21–32. The concept of a "public return" or "public benefit" is deeply rooted in the Western tradition. The Jamestown Company, Massachusetts Bay Company, Plymouth Company, and East India Trading Company are early examples of corporations created for the public benefit. Current examples include energy, turnpike, and harbor authorities, which were created by and serve at the pleasure of governments.

5. D. Korten, *When Corporations Rule the World* (West Hartford, Conn.: Kumarian Press; and San Francisco, Calif.: Berrett-Koehler Publishers, 1995), 57–61.

6. P. Hawken, *The Ecology of Commerce* (New York: HarperCollins, 1993), 105–08.

7. Ibid., pages 26–28.

8. Smith and Dyer, note 3 above, page 65.

9. C. Williams, "The Securities and Exchange Commission and Corporate Social Transparency," *Harvard Law Review* 112, no. 6 (1999): 1,199.

10. Ibid., page 1,235.

11. GAAP governs only the external reporting of financial information. Internal accounting methods, often referred to as managerial accounting, are not standardized. Companies develop customized methods to support internal decisionmaking on such activities as materials management, product pricing, and capital investments.

12. Williams, note 9 above, pages 1,246–73.

13. One recent manifestation of this is the formation of the Corporate Sunshine Working Group in 1998 (http://www.foe.org). This group consists of environmentalists and social investors who are trying to persuade the SEC to require disclosure of a wide array of environmental performance information. They argue that such information is relevant to many aspects of a corporation's financial performance, including the marketability of its products, its corporate image, and customer loyalty. See, for example, M. Arnold and R. Day, *The Next Bottom Line: Make Sustainable Development Tangible* (Washington, D.C.: World Resources Institute, 1998); and J. Ganzi and A. DeVries, *Corporate Environmental Performance as a Factor in Financial Industry Decisions* (Washington, D.C.: Environmental Protection Agency, Office of Cooperative Environmental Management, 1998).

14. J. Elkington, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (Oxford, U.K.: Capstone Publishing, Ltd., 1997), 132–33.

15. Further (and in some ways the most compelling) testimony to the inadequacy of current disclosure standards comes from the recent financial crisis in Asia. Because they do not adhere to the financial standards found in the United States and Europe, Asian companies were able to conceal the years of questionable credit and investment practices that were a major factor in the failure of some firms in the late 1990s.

16. A. White, S. Anderson, and S. Helms, *Reinventing Environmental Reporting*, Report to the U.S. Environmental Protection Agency (Boston, Mass.: Tellus Institute, 1998).

17. See S. A. Hearne, "Tracking Toxics: Chemical Use and the Public's 'Right-to-Know'," *Environment*, July/August 1996, 4; and J. Chelen, "Erasing the Data Deficit," *Environmental Forum* 15, no. 1 (1998): 35.

18. Many early reports were mere public relations pieces than comprehensive records of environmental performance. Such "green glossies" quickly drew criticism, however, as many readers felt that the environment was too important to be treated in this fashion. While a few companies continue to view reporting as a public relations exercise, most now take a more methodical and objective approach to it.

19. Denmark's "green accounts" program does require some qualitative information, such as assessments of environmental impacts. See A. White and D. Zinkl, "Green Metrics: A Global Status Report on Standardized Corporate Environmental Reporting" (paper presented at the annual meeting of the Coalition for Environmentally Responsible Economies (CERES), April 1998, available at http://www.ceres.org).

20. Generally see White and Zinkl, note 19 above.

21. European Chemical Industry Council, *Responsible Care Health, Safety, and Environmental Reporting Guidelines* (Brussels, 1998).

22. For a valuable assessment of CERES and other voluntary reporting programs, see J. Nash and J. Ehrenfeld, "Code Green: Business Adopts Voluntary Environmental Standards," *Environment*, January/February 1996, 16.

23. National Round Table on the Environment and the Economy, *Measuring Eco-efficiency in Business: Feasibility of a Core Set of Indicators* (Ottawa, 1999).

24. D. Ditz and J. Ranganathan, *Measuring Up: Toward a Common Framework for Tracking Corporate Environmental Performance* (Washington, D.C.: World Resources Institute, 1997).

25. The focus on sustainability reporting (as opposed to simple environmental reporting) was adopted by the steering committee a few months after the initiative was launched.

26. The complete guidelines are available at http://www.ceres.org.

27. See P. Watts and L. Holme, *Corporate Social Responsibility* (Geneva: World Business Council for Sustainable Development, 1999).

28. Ibid., page 20.

29. See, for example, the various workplace standards of the International Labor Organization at www.ilo.org; the United Nations' Universal Declaration on Human Rights at www.unchr.ch; and the Organisation for Economic Cooperation and Development's *Guidelines for Multinational Enterprises* at www.oecd.org. For an overview of such codes, see Interfaith Center on Corporate Responsibility, *Principles for Global Corporate Responsibility: Bench Marks for Measuring Business Performance* (New York, 1998).

30. Using stakeholder involvement as the vehicle for creating indicators is a theme that permeates GRI. NGOs argued strongly for this, saying that consultations with stakeholders are indispensable to designing meaningful sustainability indicators. In other words, they believe that the task is too important to be left to the "experts." For a report that exemplifies this point of view, see that of Canada's Van City Credit Bank at http://www.vancity.com.

31. See http://www.bms.com.

32. Klaus Töpfer, communication to environment ministers, 6 April 1999.

33. K. Betts, "Guidelines Would Allow Companies to Substantiate Green Claims," *Environmental Science and Technology* 33, no. 9 (1999): 189A.

34. The Canadian Institute of Chartered Accountants and the U.K. Association of Chartered Certified Public Accountants have been particularly active. In general, accountants in these countries have much more awareness of environmental and sustainability issues than their U.S. counterparts do. See Federation of European Accountants, *Towards a Generally Accepted Framework for Environmental Reporting*, Discussion draft (Brussels, 1999).

35. Paul Hawken, personal communication with the author, 10 March 1999; and Mathis Wackernagel, Redefining Progress, personal communication with the author, 1 March 1999.

36. See "The Next Bottom Line," *Business Week*, Special advertising supplement, 3 May 1999; K. Bradsher, "Can Motor City Come Up with a Clean Machine?," *New York Times*, 19 May 1999, E1; "Uncovering Value: The Links between Environmental and Financial Performance" (a speaker series sponsored by the Social Investment Security Analysts Group in conjunction with the New York Society of Securities Analysts, March–April 1999, text available at http://www.nyssa.org/sisa/); and E. Alden, "Go Green, Invest, and Then Prosper," *Financial Times*, 25 January 1999, 7. One initiative that brings sustainability information closer to the mainstream financial community is the partnership between the Swiss firm Sustainable Asset Management and Dow Jones, the U.S. business information company, which is developing a sustainability performance index for multinational firms.

37. White et al., note 16 above.

38. J. Elkington, N. Kreander, and T. Machiba, "Behind the Japanese Screen," *Tomorrow* 8, no. 2 (1998): 54. The recent financial crisis in Asia has undoubtedly helped to lay the groundwork for greater environmental and sustainability reporting in this region in the future.

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